

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Approval of Minutes of the December 4, 2002
Investment Committee, Open Session

ITEM NUMBER: 2

ATTACHMENT(S): 1

ACTION: X

DATE OF MEETING: February 5, 2003

INFORMATION: _____

PRESENTER(S): Chairperson

Proposed minutes of the Investment Committee meeting held in open session December 4, 2002 are submitted as Attachment 1.

**PROPOSED
MINUTES OF THE
INVESTMENT COMMITTEE MEETING
OF THE
CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
DECEMBER 4, 2002
OPEN SESSION
BOARD ROOM
7667 FOLSOM BOULEVARD
SACRAMENTO, CALIFORNIA**

COMMITTEE MEMBERS PRESENT

Gary Lynes, Chairperson
Paul Krasnow
Karen Russell
Jay Schenirer
Carolyn Widener
Annette Porini, representing Director of Finance, Tim Gage
Kathleen Connell, State Controller
Richard Whitmore, representing Superintendent of Public Instruction, Delaine Eastin
Ted Eliopoulos, representing State Treasurer, Philip Angelides

OTHER BOARD MEMBERS OR REPRESENTATIVES PRESENT

Christine Solich
Louis Willhoit
Duwayne Brooks

STAFF PRESENT

Jack Ehnes, Chief Executive Officer
Christopher Ailman, Chief Investment Officer
Chris Waddell, Chief Counsel
Doug Wills, Staff Counsel
Elleen Okada, Director of Investment Administration and External Relations
Ed Derman, DCEO, External Affairs and Program Development
Michelle Cunningham Director of Fixed Income
Mike DiRe, Director of Real Estate
Real Desrochers, Director of Alternative Investments
Steven Tong, Director of Internal Equities
Richard Rose, Principal Investment Officer
Jean Kushida Uda, Investment Officer
Glenn Hosokawa, Investment Officer
Greg Nyland, Investment Officer
Mary Ann Avansino, Administrative Assistant

OTHERS PRESENT

Allan Emkin, Pension Consulting Alliance
Nori Gerardo Lietz, Pension Consulting Alliance
Marcus Steele, Pension Consulting Alliance

Monica Butler, Frank Russell Investment Group
Robert Kulperger, Tremont Advisors
Lois Shive, CTA
Dorothy Moser, CTA/NEA, Retired
Carole Luckenbach, CTA
Jim Knapp, Elk Grove USD
Pat Green, CRTA
Elizabeth Mackenzie, CRTA

- I. **CALL TO ORDER AND ROLL CALL** (Item 1)
A quorum being present, Chairperson Lynes called the open session meeting to order at 9:33 a.m.
- II. **APPROVAL OF MINUTES OF THE NOVEMBER 6, 2002 INVESTMENT COMMITTEE, OPEN SESSION** (Item 2)
MOTION duly made by Mr. Whitmore, seconded by Ms. Russell and carried to approve the minutes of the November 6, 2002, Investment Committee, Open Session as presented.
- III. **REPORT OF THE SUBCOMMITTEE ON CORPORATE GOVERNANCE** (Item 3)
Mr. Eliopoulos reported that the Subcommittee received updates regarding financial reform, proxy voting, and investment protection principles and an action was taken to support proposals at Ingersoll-Rand and Tyco regarding the companies' reincorporating from other jurisdictions to a U.S. state.

BY CONSENSUS, the report of the Subcommittee on Corporate Governance was accepted.
- IV. **CREDIT ENHANCEMENT PROGRAM POLICY REVISION** (Item 4)
Mr. Rose and Ms. Kushida Uda presented a policy change to increase the credit enhancement maximum portfolio size from 2% of the CalSTRS investment portfolio to 3% of the CalSTRS investment portfolio. Discussion ensued.

Dr. Connell arrived at the meeting at 9:50 a.m.

MOTION duly made by Mr. Schenirer, seconded by Ms Porini and carried to adopt the resolution to approve the Credit Enhancement Policy change to increase the credit enhancement program maximum portfolio size from 2% of the CalSTRS investment portfolio to 3% of the CalSTRS investment portfolio.
- V. **FIXED INCOME – CURRENCY HEDGING POLICY REVISION** (Item 5)
Ms. Cunningham and Mr. Hosokawa presented an update to the currency hedging policy manual to reflect Investment Committee action to reaffirm an unhedged policy benchmark.

MOTION duly made by Mr. Whitmore, seconded by Mr. Eliopoulos and carried to adopt the resolution to approve the revised Currency Hedging Policy as presented.

Chairperson Lynes recessed the meeting at 9:55 a.m.
The meeting reconvened at 11:18 a.m.

- VI. **CAPITAL MARKET ASSUPTION RECOMMENDATION** (Item 8)
Mr. Ailman reviewed the written item.
- MOTION duly made by Mr. Eliopoulos, seconded by Mr. Krasnow and carried to adopt the resolution to approve the Capital Market Assumption recommendation, to direct staff to undertake and update the 2002-2003 CalSTRS Investment Policy and Management Plan, and to provide these assumptions as input to the Milliman U.S.A. stochastic model.
- VII. **REAL ESTATE – RESPONSIBLE CONTRACTOR POLICY** (Item 6)
Mr. DiRe and Mr. Nyland presented reviewed revisions as requested by the Committee at the prior meeting to the proposed responsible contractor policy.
- MOTION duly made by Ms. Widener, seconded by Mr. Krasnow and carried to adopt the resolution to approve the Responsible Contractor Policy as presented.
- Mr. Ehnes recognized Dr. Connell’s efforts and accomplishments during her term on the CalSTRS Board.
- VIII. **REAL ESTATE – CONSULTANT – RFP** (Item 7)
Mr. Ailman and Mr. DiRe discussed information regarding an RFP for Real Estate Consultant. Discussion ensued.
- Dr. Connell left the meeting at 12:25 p.m. Mr. Willhoit assumed representation for the State Controller.
- Mr. Whitmore left the meeting at 12:25 p.m. Mr. Brooks assumed representation for the Superintendent of Public Instruction.
- Staff was directed to continue development of the RFP and to return with this item at the February meeting.
- Chairperson Lynes recessed the meeting at 12:25 a.m.
The meeting reconvened at 1:05 p.m.
- IX. **INVESTMENT INSIGHT SERIES – HEDGE FUNDS** (Item 9)
Mr. Ailman introduced Ms. Butler and Mr. Kulperger who presented educational information on hedge funds. Questions and answers followed.
- X. **REAL ESTATE – REAL ESTATE BENCHMARK DISCUSSION** (Item 10)
Mr. DiRe and Ms. Gerardo Lietz presented the written item on the benchmark review.
- XI. **MONTHLY STATUS REPORTS** (Item 11)
The written reports were presented.
- XII. **DRAFT AGENDA FOR FEBRUARY 5, 2002 INVESTMENT COMMITTEE AGENDA** (Item 12)
Mr. Ailman added the following items to the Open Session: a McKinsey presentation, the Real Estate RFP, the annual review of the Home Loan Program, and the annual review of Cash Equityization and postponed the Investment Insight Series to a future meeting.
- XIII. **OPPORTUNITY FOR STATEMENTS FROM THE PUBLIC** (Item 13)
There were no statements from the public.

XIV. **MOVE TO CLOSED SESSION**

Chairperson Lynes recessed the meeting at 2:23 p.m. and reconvened into closed session.

XV. **ADJOURNMENT**

There being no further business to conduct, Chairperson Lynes adjourned the meeting at 3:30 p.m.

Jack Ehnes, Chief Executive Officer and Secretary to the Teachers'
Retirement Board

Gary Lynes, Chairperson